

Report
of the
Examination of
First Commonwealth Limited Health Service Corporation
Milwaukee, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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October 5, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

FIRST COMMONWEALTH LIMITED HEALTH SERVICE CORPORATION
Milwaukee, WI

and this report is respectfully submitted.

I. INTRODUCTION

First Commonwealth Limited Health Service Organization (FCW or the LSHO) was
licensed September 14, 1994. The current examination covered the intervening period ending
December 31, 2000, and included a review of such 2001 transactions as deemed necessary to
complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing
- Enrollee Complaint Procedure
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The First Commonwealth Limited Health Service Corporation can be described as a for-profit individual practice association (IPA), model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the IPA model, the LSHO provides care through contracts with otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated March 12, 1996, and commenced business June 17, 1996. The company is a wholly owned subsidiary of First Commonwealth, Inc. (FCI), a Delaware corporation. The Guardian Life Insurance Corporation of America (Guardian) obtained control of FCW pursuant to an Agreement and Plan of Merger among Guardian, Floss Acquisition Corp. and FCI. Guardian, acting through Floss Acquisition Corp., agreed to purchase all of the issued and outstanding stock of FCI for \$25 per share. Floss was merged into FCI immediately after the sale of the shares.

The LSHO entered into an assumption reinsurance agreement with Smileage Dental Insurance, Inc. effective July 1, 1996. FCW assumed all individual and group policies issued by Smileage Dental Insurance, Inc. and in-force as of the effective date. There were approximately 55,000 members covered at the time.

FCW entered into an administrative master contract with First Commonwealth of Illinois, Inc. (FC-IL), dated July 12, 1996, under which with FC-IL agrees to provide the following services:

- Investigate and endeavor to resolve any and all complaints
- Contract with providers at appropriate locations
- Inform FCW when providers terminate their contracts
- Negotiation of provider agreements and reimbursement terms
- Administer payments to providers
- Make covered services available to FCW members through the contracting provider selected by the member
- Quality assessment programs

FCW is required to provide an eligibility list each month that specifies names and other identifying data for members for the succeeding month. FCW has sole responsibility for determination of member eligibility.

As compensation for services provided FCW pays 1) the total of all capitation amounts due to dentists for dental services and 2) an allocation of costs plus 10% incurred by FC-IL in administering the agreement. The capitation payment is due by the thirtieth (30th) day of each month prior to the effective date of coverage. Administrative costs are billed monthly and payment is due within thirty (30) days. FCW is responsible for payment for services provided by non-contracting providers.

The contract was effective on June 17, 1996 and had a term of one-year. The parties may renew the contract at the end of the term, and by mutual consent modify its terms. Any such modifications are required to be in writing. FC-IL may terminate the agreement upon thirty-day (30) prior notice.

FCW contracts with 45 dentists at 36 locations in southeastern Wisconsin. Providers are compensated on a capitation basis for services rendered. FC-IL and the provider agree that in no event (including but not limited to, non-payment by or insolvency of FCW), shall FC-IL or any provider have a right to bill members for covered services. The member will be responsible for payment for non-covered services and applicable copayments.

FCW's service area is comprised of Milwaukee, Waukesha, Washington, Ozaukee, Racine, Kenosha, Walworth, Jefferson, and Dodge counties. The LSHO currently markets to groups. The LSHO uses outside agencies and pays commissions of 10% for the dental HMO product and 7% for the point-of-service product for new and renewal business.

The LSHO markets various plans that offer a limited range of dental coverage. The following dental care benefits are provided in all products:

- Preventive/Diagnostic services - dental exams, cleaning, fluoride treatments and X-rays
- Restorative services – fillings and sealants
- Endodontics – root canals
- Periodontics – root planning and scaling
- Oral Surgery – simple extractions
- Prosthetics – crowns, fixed bridgework and dentures
- Specialty services – molar root canal, periodontal services and surgical extractions
- Certain cosmetic services
- Orthodontics

Enrollees are asked to select a dentist at the time of enrollment. In most cases coverage for services is dependent on members receiving services from participating providers. However, the LSHO offers point-of-service and PPO coverages that allow members to receive services from non-participating providers. Copayments are required for some services and vary by product-type. Certain products have annual deductibles. Copayments and deductibles are higher for services received from non-participating providers by point-of-service and PPO members.

The LSHO analyzes provider capitation rates and historical out-of-network utilization in determining premiums. Rates are adjusted to reflect the coverage characteristics of the group benefit packages. Calculations are reviewed for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of two [2] members. Directors are elected at the annual meeting of the stockholders and hold office until his/her successor is elected and qualified. Officers for the board are elected at the board's annual meeting and hold office until his/her successor is elected and qualified. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation
Christopher Curtis Multhauf 365 Iris Lane Highland Park, IL	Chief Executive Officer First Commonwealth Inc.
David W. Mulligan 1740 West Barry Chicago IL	President, Chief Operating Officer First Commonwealth Inc

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office
David W. Mulligan	President
Gregory D.Stobbe	Secretary
Christopher C. Multhauf	Chairman

Officers are compensated by an affiliate of FCW.

Management Agreement

The LSHO has no employees, necessary staff is provided through a management agreement between First Commonwealth Inc., Dental Plan Administrator, and FCW, effective July 10, 1996. The agreement is in effect until one party provides the other party 90-day written notification it wishes to terminate the contract. FCW grants First Commonwealth, Inc., the authority to supervise and manage the day-to-day operations of the FCW's business.

First Commonwealth, Inc. is required to:

- Review the short, medium, and long range objectives, formulating recommendations.
- Assure that FCW complies with all governmental regulations.
- Apply for, obtain and maintain all licenses and permits required for operation.
- Prepare annual budgets that sets out major operating objectives, anticipated revenue, expenses, and cash flow at least 60 days prior to commencement each fiscal year.
- Prepare a balance sheet and statement of revenue and expenses within 25 days of the ending of the month and 120 days following the end of the fiscal year.
- Deposit all money derived from operations in FCW's accounts, including payments sent to First Commonwealth as part of the Group Master Contract for monthly billing charges. All payments necessary for operations will also be made out of FCW's accounts.
- First Commonwealth of Illinois, a wholly owned subsidiary of First Commonwealth, will develop FCLHSC-W's dental network. Any claims arising from out of network providers will be adjudicated, processed, and remitted for payment on behalf of FCW by First Commonwealth.

Compensation: Marketing and Sales Related Fees - First Commonwealth's variable and fixed costs associated with marketing, solicitation, and enrollment of FCW members will be reimbursed at cost + 10% by FCW. Variable costs include marketing commissions, marketing materials, and distribution of materials. Fixed costs include apportioned salaries, rent, development costs, and other misc. costs.

Administrative Expenses - First Commonwealth's variable and fixed administrative costs will be reimbursed at cost + 10%. Variable costs include data processing, postage, forms, supplies, etc. directly attributable to FCW's members. Fixed costs include apportioned salaries, rent, development costs, and other misc. costs.

Financial Requirements

The financial requirements for FCW under an order dated June 17th 1996 are as follows:

Amount Required	
1. Minimum capital or permanent surplus	Not less than \$100,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the

Commissioner that all risk for loss has been transferred to the providers.

4. Security surplus The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

An LSHO that provides hospital services must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

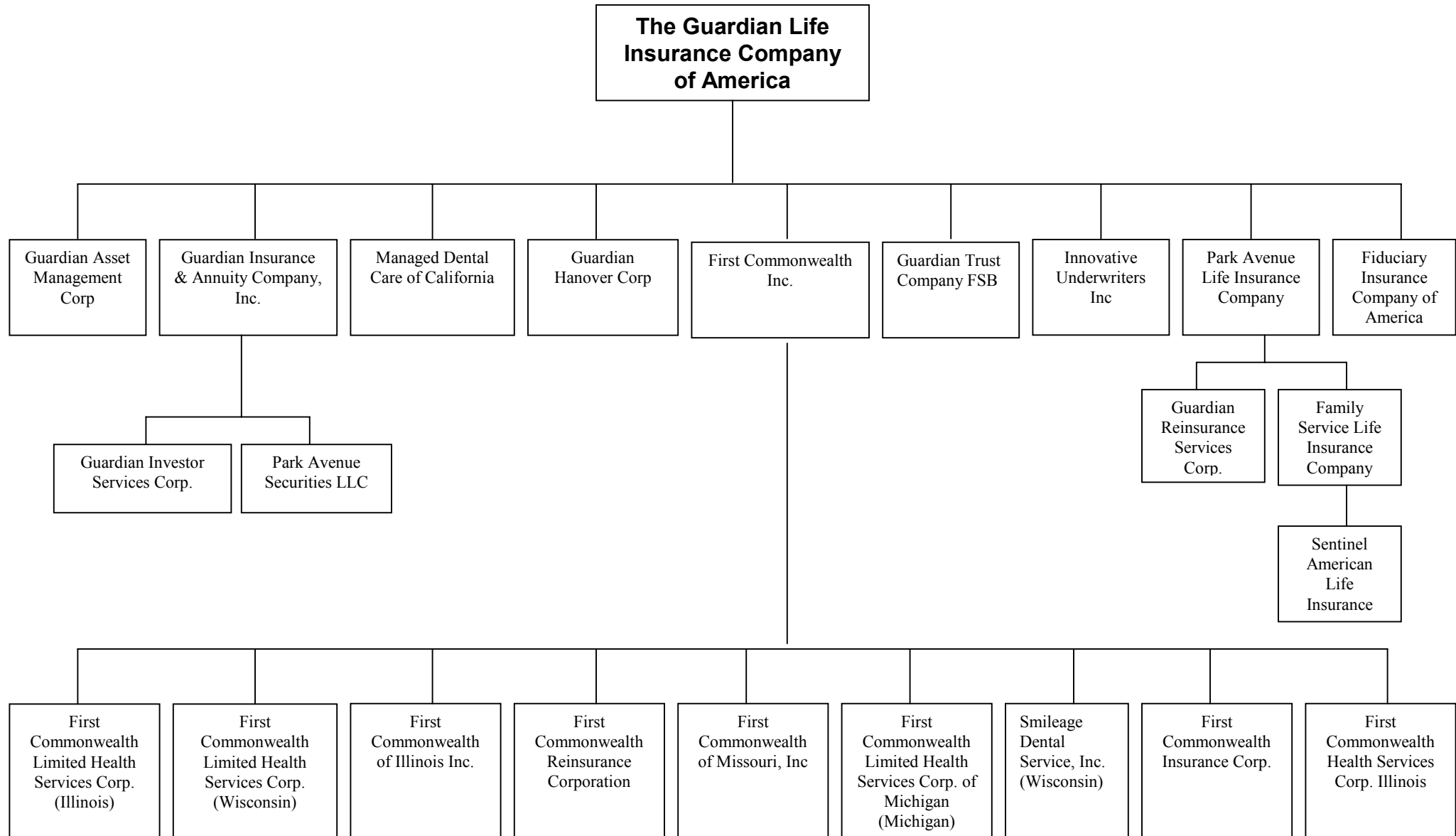
Type of Coverage	Policy Limits
Directors' and officers' liability	\$
Commercial general liability	2,000,000
Medical expense	10,000
Excess umbrella liability	20,000,000
Employee Dishonesty	500,000
Forgery or Alteration	500,000
Computer Fraud	500,000

The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus lines insurers.

IV. AFFILIATED COMPANIES

First Commonwealth Limited Health Service Corporation is a member of a holding company system. Its ultimate parent is Guardian Life Insurance Company of America. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the LSHO follows the organizational chart.

**Holding Company Chart
As of December 31, 2000**



The Guardian Life Insurance Company of America

Founded in 1860, The Guardian Life Insurance Company of America (Guardian) is the fourth largest mutual life insurance company in the United States. Guardian and its subsidiaries provide life and disability income insurance, retirement services and investment products such as mutual funds, securities, variable life insurance and variable annuities. Guardian also supplies employee benefits programs including life, health and dental insurance, as well as qualified pension plans. As of December 31, 2000, Guardian's GAAP audited financial statement reported (in millions) assets of \$32,359, liabilities of \$27,157, and equity of \$5,202. Operations for 2000 produced net income (in millions) of \$563 on revenues of \$6,569.

First Commonwealth, Inc.

First Commonwealth, Inc. (FCWI) is a wholly owned subsidiary of Guardian that serves as a holding company for the group's dental insurance operations. FCWI, through its subsidiary, provides dental managed care, indemnity and dental PPO benefits to over 640,000 enrollees. As of December 31, 2000, FCWI's GAAP audited financial statement reported assets (in thousands) of \$120,100, liabilities of \$18,220, and equity of \$101,880. Operations for 2000 produced net income (in thousands) of \$1,669 on revenues of \$67,913.

First Commonwealth of Illinois, Inc.

First Commonwealth of Illinois, Inc. (FCI) is an Illinois third party administrator. As of December 31, 2000, the FCI's GAAP audited financial statement reported (000's omitted) assets of \$22,445, liabilities of \$1,929, and equity of \$20,516. Operations for 2000 produced net income of \$1,441 on revenues of \$28,742.

As discussed previously, the LSHO has entered into administrative service agreements with its affiliates. The following chart reflects the amounts paid under the agreements during 2000:

Company	Administration	Solicitation	Capitation	10% Charge	Total
First Commonwealth, Inc.	\$853,419	\$249,059	\$	\$110,248	\$1,212,727
First Commonwealth of Illinois, Inc.	<u>201,992</u>	<u>0</u>	<u>5,938,075</u>	<u>20,199</u>	<u>\$6,160,266</u>
Total	\$1,055,411	\$249,059	\$5,938,075	\$130,447	\$7,372,993

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2000, annual statement to the commissioner of insurance. Also included in this section are schedules which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination is noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

First Commonwealth Limited Health Service Corporation
Assets, Liabilities and Net Worth
As of December 31, 2000

Current Assets:

Cash and Short-term Investments		\$1,338,878
Premiums receivable		780,987
Investment income receivable		8,491
Amounts due from affiliates		<u>282,859</u>
Total Assets		<u>\$2,411,225</u>

Current Liabilities:

Claims payable (reported and unreported)	\$243,346	
Unearned premiums	649,871	
Amounts due to affiliates	93,706	
Aggregate write-ins for Current Liabilities	<u>170,462</u>	
Total Liabilities		1,157,385

Net Worth:

Common stock	1,000	
Paid-in surplus	99,000	
Retained earnings/fund balance	<u>1,153,840</u>	
Total net worth		<u>1,253,840</u>
Total Liabilities and Net Worth		<u>\$2,411,225</u>

**First Commonwealth Limited Health Services Organization
Statement of Revenue and Expenses
For the Year 2000**

Revenues

Premium	\$9,987,312	
Investment	<u>73,428</u>	
Total revenue		\$10,060,740

Provider Expenses

Professional services	\$7,453,153
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Administrative Expenses:

Total administrative expenses	<u>2,012,124</u>	
Total expenses		<u>9,465,277</u>
Income/(loss)		595,463
Provision for federal income taxes		<u>226,188</u>

Net Income/(Loss)		<u>\$ 396,275</u>
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**First Commonwealth Limited Health Services Organization
Statement of Net Worth
As of December 31, 2000**

Net worth, beginning of year	\$1,008,115
Increase (decrease) in retained earnings/fund balance:	
Net income (loss)	369,275
Decrease (increase) in nonadmitted assets	<u>(123,551)</u>
Net worth, end of year	<u>\$1,253,839</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination

period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income	Loss Ratio	Profit Margin
1996	\$1,135,320	\$ 882,564	\$ 252,756	\$ 3,580,218	\$2,807,163	\$166,382	78.4%	4.6%
1997	1,489,681	799,292	690,389	8,694,151	7,089,809	454,894	81.5%	5.2%
1998	1,761,432	922,099	839,333	10,151,753	8,299,397	217,674	81.8%	2.1%
1999	1,571,401	563,286	1,008,115	11,004,703	8,610,417	175,968	78.2%	1.6%
2000	2,411,225	1,157,385	2,411,225	9,987,312	7,453,153	369,275	74.6%	3.7%

Enrollment for the years under examination:

Year	Members
1996	55,642
1997	60,872
1998	69,418
1999	71,504
2000	58,087

Changes in capital and surplus during the examination period:

	1996	1997	1998	1999	2000	Total for Period
Capital & Surplus - Beginning of Period	\$ 0	\$252,756	\$690,389	\$839,334	\$1,062,115	0
Net Income	166,382	454,894	217,674	229,968	369,275	1,438,193
Increase in common stock	1,000	0	0	0	0	1,000
Increase in paid-in surplus	99,000	0	0	0	0	99,000
Decrease/(Increase) in nonadmitted assets	(13,627)	(17,261)	(68,729)	(7,186)	(123,551)	(230,354)
Other	1	0	0	(1)	(54,000)	(54,000)
Capital & Surplus - End of Period	<u>\$252,756</u>	<u>\$690,389</u>	<u>\$839,334</u>	<u>\$1,062,115</u>	<u>\$1,253,839</u>	<u>\$1,253,839</u>

The decrease in enrollment was due in large part to layoffs in the manufacturing industry in

Milwaukee. The company remained profitable despite the drop in enrollment because of its risk

transfer to providers and improved claim experience with nonparticipating providers.

Reconciliation of Net Worth per Examination

The following schedule is a reconciliation of net worth between that reported by the LSHO and as determined by this examination:

Net worth December 31, 2000, per annual statement			\$1,253,839
	Increase	Decrease	
Amounts Due From Affiliates	<u>\$0</u>	<u>\$(39,455)</u>	
Net increase or (decrease)	<u>\$0</u>	<u>\$(39,455)</u>	<u>(39,455)</u>
Net worth December 31, 2000, per examination			<u>\$1,214,384</u>

VI. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

Management and Control

The LSHO's articles of incorporation require the company to present a full and clear statement of business and condition of FCW at each annual meeting. This was not noted in the minutes of the meetings. In addition, the appropriate directors did not sign the board and shareholder meeting minutes. It is recommended that the company conduct its annual meeting of the board of directors in accordance with its articles of incorporation. It is recommended that the company have its corporate minutes signed by the appropriate corporate officials.

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted a procedure for disclosing potential conflicts of interest, however it is not performed annually. It is recommended that the company establish procedures for the annual completion of a conflict of interest questionnaire by the appropriate persons.

Section Ins 6.52 (5), Wis. Adm. Code requires insurers file biographical information with respect to the appointment or election of any new director, trustee or officer elected or appointed within 15 days after such appointment or election. The company did not file the required information for a director appointed in 2001. It is recommended that the company file biographical information for any newly appointed officer or director within fifteen days of such appointment as required by s. Ins 3.52, Wis. Adm. Code.

Financial Reporting

The company changed the numbers reported on the 1999 A/S when reporting figures for the 2000 A/S. The difference is related to an error in estimating the amount due to affiliates for income taxes incurred. An analyst with the Office of the Commissioner of Insurance contacted the company twice to have them restate the 2000 A/S so that the prior year columns agree to the

1999 A/S. The company failed to respond. Section 601.41 (4) Wis. Stat. states: "Any officer, manager or general agent of any insurer authorized to do or doing an insurance business in this state, any person controlling or having a contract under which the person has a right to control such an insurer, whether exclusively or otherwise, any person with executive authority over or in charge of any segment of such an insurer's affairs, any individual practice association or officer, director or manager of an individual practice association, any insurance agent or other person licensed under chs. 600 to 646, any provider of services under a continuing care contract, as defined in s. 647.01 (2), any independent review organization certified or recertified under s. 632.835 (4) or any health care provider, as defined in s. 655.001 (8), shall reply promptly in writing or in other designated form, to any written inquiry from the commissioner requesting a reply." The company failed to comply with this statute when it did not respond to the inquiries noted above. It is recommended that the company respond promptly to OCI inquiries as required by s. 601.42 (4), Wis. Stat.

The change from the 1999 statement to the 2000 statement noted in the previous paragraph is related to a \$54,000 error in estimating the amount due to affiliates for income taxes incurred. The company was required to report on a "modified GAAP" basis, which means GAAP accounting treatment was accepted unless there was a specific law, rule or OCI instruction to the contrary. APB 20 states that changes in accounting estimates are to be accounted for as follows:

...the effect of a change in accounting estimate should be accounted for in

- a. the period of change if the change affects that period only or
- b. the period of change and future periods if the change affects both.

A change in an estimate should not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.

The company should have reported the change as a direct charge to net worth and balances reported in the prior year columns on the 2000 annual statement should have agreed to those reported in the 1999 annual statement. It is recommended that the company amend its 2000 annual statement so that the balances reported in the prior year columns agree to those reported in the 1999 annual statement.

Schedule H did not include capitation payments made to First Commonwealth of Illinois for services provided to FCW enrollees. The NAIC Limited Health Service Organization Annual Statement Instructions require companies to include all payments for services, including capitation, amounts withheld per diems, and fee-for-service amounts. In addition, capitation payments were not included on the Underwriting and Investment Exhibit – Part 2 as required. It is recommended that the company include capitation payments in Schedule H and the Underwriting and Investment Exhibit – Part 2 of the NAIC Annual Statement in the future.

Since FCW does not pay providers directly, First Commonwealth of Illinois meets the definition of an intermediary for the purposes of annual statement reporting and payments made by FCW should be reported on the line designated for payments to intermediaries. It is recommended that the company classify payments made to intermediaries on the appropriate line in Schedule L of the NAIC Annual Statement in the future.

Cash and Short-Term Investments

The review of the bank reconciliations revealed that the LSHO had not been setting up a liability for long outstanding checks. It is recommended that the LSHO comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for over one year.

The LSHO records interest payments on Schedule E of the Annual Statement net of banks charges. The interest should be reported gross and the bank charges should be reported on line 21 of Part 3 of the Underwriting and Investment Exhibit. It is recommended that the company report the gross amount of interest earned on Schedule E and report bank fees as an expense in Part 3 of the Underwriting and Investment Exhibit of the annual statement.

Amounts Due From Affiliates

The company has recorded an asset for “Due to Smileage Dental Service” in the amount of \$39,455. There was no activity in this account during 2000. Information regarding this balance was requested on three occasions. The company failed to respond to the requests. Therefore the examination is writing down this account balance to zero due to the lack of

documentation. The \$39,455 adjustment is reflected in the section of this report captioned "Reconciliation of Net Worth per Examination".

VII. CONCLUSION

The First Commonwealth Limited Health Service Corporation is a for-profit individual practice association, model limited service health organization. The LSHO was incorporated March 12, 1996, and commenced business June 17, 1996. The company is a wholly-owned subsidiary of The Guardian Life Insurance Corporation of America (Guardian). The LSHO obtained a significant amount of its business through an assumption reinsurance agreement with Smileage Dental Insurance, Inc.

The company reported profits in each of the years' during the examination period. Enrollment had increased each of the years under examination until a 19% decrease in 2000. The decrease was primarily caused by layoffs in the manufacturing industry in Milwaukee. The examination decreased net worth 3% to \$1,214,384 due to the write-down of an amount due from an affiliate.

The examination made ten recommendations, four related to the LSHO's corporate records, four related to financial reporting on the annual statement and one related to procedures for reporting unclaimed funds. The company should pay particular attention to the recommendation regarding responding to inquiries of the commissioner.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Management and Control—It is recommended that the company conduct its annual meeting of the board of directors in accordance with its articles of incorporation.
2. Page 18 - Management and Control—It is recommended that the company have its corporate minutes signed by the appropriate corporate officials.
3. Page 18 - Management and Control—It is recommended that the company establish procedures for the annual completion of a conflict of interest questionnaire by the appropriate persons.
4. Page 18 - Management and Control—It is recommended that the company file biographical information for any newly appointed officer or director within fifteen days of such appointment as required by s. Ins 3.52, Wis. Adm. Code.
5. Page 19 - Financial Reporting—It is recommended that the company respond promptly to OCI inquiries as required by s. 601.42 (4), Wis. Stat.
6. Page 19 - Financial Reporting—It is recommended that the company amend its 2000 annual statement so that the balances reported in the prior year columns agree to those reported in the 1999 annual statement.
7. Page 20 - Financial Reporting—It is recommended that the company include capitation payments in Schedule H and the Underwriting and Investment Exhibit – Part 2 of the NAIC Annual Statement in the future.
8. Page 20 - Financial Reporting—It is recommended that the company classify payments made to intermediaries on the appropriate line in Schedule L of the NAIC Annual Statement in the future.
9. Page 20 - Cash and Short-Term Investments—It is recommended that the LSHO comply with ch. 177, Wis. Stat., as regards unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all checks outstanding for over one year.
10. Page 20 - Cash and Short-Term Investments—It is recommended that the company report the gross amount of interest earned on Schedule E and report bank fees as an expense in Part 3 of the Underwriting and Investment Exhibit of the annual statement.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Mark Knievel	Insurance Financial Examiner

Respectfully submitted,

Richard A. Hinkel
Examiner-in-Charge